



J. TYLER McCAULEY  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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TO: Mayor Michael D. Antonovich  
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Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **CONTRACT COST OF LIVING ADJUSTMENTS REVIEW**

At the request of the Third Supervisorial District, we reviewed three Department of Health Services' (DHS) custodial service contracts with Pedus Building Services (Pedus). Our review was intended to determine whether Pedus used the Cost of Living Adjustments (COLA) it received under the contracts to pay increased salaries and wages to its employees. Our review included interviewing management and staff from DHS, Pedus, and Service Employees Union, Local 1877 (Union), which represents Pedus' employees. We also reviewed Pedus' payroll records, contract invoices, monitoring reports and other documentation.

Our review indicates that Pedus did not use all the COLA funds it received to pay increased salaries and wages to its employees. However, we also noted that County contract COLA provisions do not require contractors to use COLAs to increase employee salaries and wages.

**Background and Results of Review**

County contracts generally limit contract COLAs to the increase received by County employees, if any. In 2001, the Board approved extensions of three DHS contracts with Pedus at Olive-View Medical Center (OVMC), DHS Administrative Offices Commerce, and Mid-Valley Comprehensive Health Center, which included a 2.9% COLA, totaling \$58,000. The contract extensions indicated that \$46,000 of the COLA would be used to pay increased salaries and wages to Pedus' employees.

The Third District asked us to determine whether Pedus had passed the COLAs it received along to its employees. Our review indicates that Pedus did not pass all of the COLA funds it received along to all the employees working on the contracts. For two of the contracts, Pedus did not bill DHS for the COLA during the extension period. As a result, it appears that the employees working on those two contracts did not receive a COLA. For the OVMC contract, Pedus billed DHS for the COLA. However, Pedus only passed a COLA along to 11 of the 49 (22%) employees we reviewed who worked on the contract, and did not start paying the COLA to those employees until four months after the company started receiving the increase.

Pedus indicated that they did not bill DHS the COLA for two of the contracts due to an oversight. County Counsel has indicated that, since the County never paid Pedus a COLA for these two contracts, there is no COLA issue with those contracts. Pedus also indicated that, for the OVMC contract, they believed that only the 11 employees reviewed were entitled to the COLA under their labor agreement.

We discussed the results of our review with DHS, Pedus, Union management and County Counsel. DHS and Union management agreed with the results of our review. Pedus management indicated that they agreed with the results of our review, subject to the provisions of their labor agreements.

We discussed the OVMC contract with County Counsel. Counsel indicated that they believe the contract could be interpreted to conclude that the County relied on Pedus' budget when agreeing to give Pedus the COLA, and that the County expected Pedus to use the COLA to pay increased salaries and wages, supplies, etc. Counsel indicated that, if Pedus did not actually need the COLA to pay increased costs, the County might not have agreed to the COLA. As a result, Counsel believes Pedus should be required to document how it actually used the funds it received to provide services under the OVMC contract (e.g., increased wages, supplies, or other budget items), and, to the extent Pedus is unable to document this, the County should seek reimbursement from Pedus. Counsel indicated that Pedus does not have to show that every employee received a 2.9% COLA, but rather that Pedus should be required to justify the total COLA it received.

As noted earlier, the County's COLA contract provisions do not require contractors to pass COLAs they receive along to their employees. We recommend that the Chief Administrative Office work with County Counsel and Internal Services Department to evaluate whether the County COLA contract provisions should be revised to ensure that contract COLAs are passed along to employees working on County contracts.

Please call if you have any questions, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MMO:JLS:AA

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